TSX:ESN

ESSENTIAL ENERGY SERVICES

FIRST QUARTER REPORT

THREE MONTHS ENDED MARCH 31, 2012

The following Management's Discussion and Analysis ("MD&A") of Essential Energy Services Ltd. ("Essential" or the "Company") is for the three months ended March 31, 2012.

This MD&A should be read in conjunction with Essential's March 31, 2012 unaudited condensed interim consolidated financial statements and the audited consolidated financial statements and MD&A included in Essential's 2011 Financial Report to Shareholders for the financial year ended December 31, 2011. No update is provided where an item is not material or where there has been no material change from the discussion in the aforementioned annual MD&A. All references to dollar amounts are to Canadian dollars, except where otherwise indicated. This MD&A was prepared effective May 7, 2012.

BASIS OF PRESENTATION

The following MD&A and the unaudited condensed interim consolidated financial statements as at and for the three months ended March 31, 2012 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), except where otherwise indicated.

SELECTED FINANCIAL INFORMATION

	Three months ended March 31,	
(Thousands, except per share amounts)	**2012**	2011
Revenue	**$ 119,580**	$ 66,416
Gross margin	**$ 36,504**	$ 16,652
Gross margin %[1]	**31%**	25%
EBITDA[1]	**$ 32,352**	$ 13,401
EBITDA %[1]	**27%**	20%
Funds flow from operations [1]	**$ 28,631**	$ 13,440
Per share – basic and diluted [1]	**$ 0.23**	$ 0.18
Net income attributable to shareholders of Essential	**$ 18,893**	$ 6,248
Per share – basic and diluted	**$ 0.15**	$ 0.09
Total assets	**$ 430,674**	$ 190,926
Total long-term debt	**$ 57,238**	$ 7,392

The increased size and nature of the Company's operations due to the completion of the acquisition of Technicoil Corporation (the "Technicoil Acquisition") on May 31, 2011 impacts the results for 2012 compared to 2011. The results for Technicoil are only included in periods after the acquisition and therefore Essential's results for the three months ended March 31, 2011 do not include Technicoil.

[1] Refer to "Non-IFRS Measures" section for further information.

OVERVIEW OF ESSENTIAL

EQUIPMENT FLEET

	As at March 31,	
	2012	2011
Coil Well Service		
Deep coil tubing rigs	**25**	6
Shallow/Intermediate coil tubing rigs	**26**	28
Nitrogen pumpers	**12**	10
Fluid pumpers	**15**	-
Service Rigs		
Singles	**38**	30
Doubles	**22**	23

Coil tubing rigs

Essential operates the largest coil tubing well servicing fleet in the Western Canadian Sedimentary Basin ("WCSB"). There are two distinct operating categories within Essential's coil tubing rig fleet, deep coil tubing rigs and shallow/intermediate coil tubing rigs.

- Deep coil tubing rigs include both masted and conventional coil tubing rigs that have a depth capacity up to 6,600 meters. The deep coil tubing rigs primarily provide completion, fracture stimulation and workover services primarily on long reach horizontal wells. These rigs are supported by a fleet of nitrogen and fluid pumpers, which broadens Essential's services. The deep coil tubing rig fleet is primarily focused on providing services on horizontal oil and liquids-rich natural gas resource plays.
- Shallow/intermediate coil tubing rigs are conventional coil tubing rigs that have a depth capacity up to 2,500 meters. These rigs primarily provide workover services on existing wells; the intermediate rigs are typically more oil focused while the shallow rigs are focused on natural gas.

Service rigs

Essential's mobile service rig fleet operates from eight service locations across western Canada providing well completion and production/workover services in all major resource plays across the WCSB. Service rigs are used primarily on oil wells which are typically more service intensive than natural gas wells. These rigs are deployed to workover, re-complete and stimulate existing wells and perform completions on new wells.

Downhole tools & rentals

Essential provides a wide range of downhole tools and rental services to assist with the completion and production operations of oil and natural gas wells. These services offer a full range of downhole tools, including the Tryton Multi-Stage Fracturing System ("Tryton MSFS") which is used for horizontal well completions.

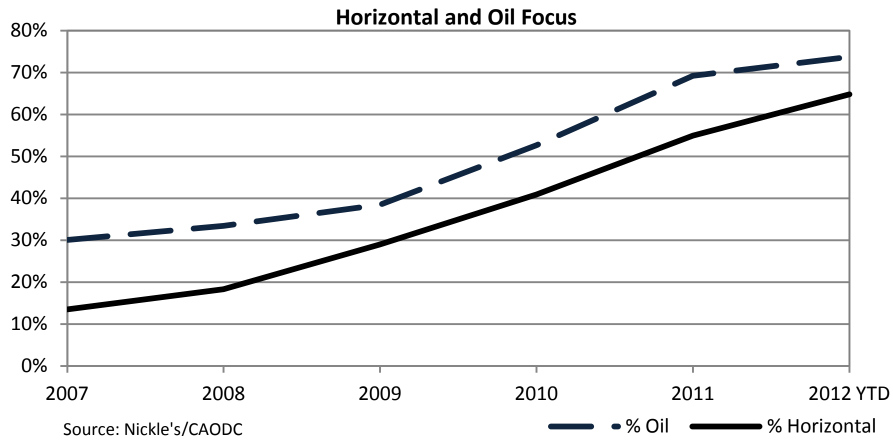
CORPORATE INFORMATION

Essential was incorporated under the *Business Corporations Act* (Alberta). The common shares trade on the Toronto Stock Exchange under the symbol ESN.

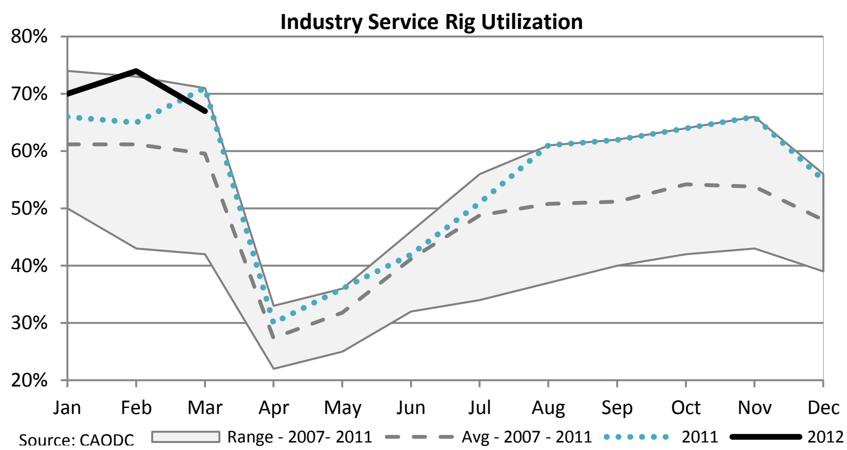
Additional information regarding Essential, including the 2011 interim reports, 2011 Annual MD&A and Financial Statements and the Annual Information Form for the year ended December 31, 2011, can be found under Essential's profile on SEDAR at www.sedar.com.

INDUSTRY OVERVIEW

Well service activity in the WCSB during the first quarter continued to be driven by horizontal drilling and stimulation and completion work on oil and liquids-rich natural gas plays. The focus on horizontal wells contributed to increased demand for oilfield service equipment, including deep coil tubing rigs, service rigs and multi-stage completion services, as horizontal wells typically require more investment capital and increased rig time per well due to their depth and complexity compared to conventional vertical wells.



Service rig utilization during the first quarter of 2012, as reported by the Canadian Association of Oilwell Drilling Contractors ("CAODC"), exceeded the average utilization over the last five years despite a late start to operations in January and early break-up in the southern regions of the WCSB.



OPERATING HIGHLIGHTS – ESSENTIAL

Essential posted record results for the first quarter, building on the strong results from 2011. Essential continued to benefit from its focus on oil and liquids-rich natural gas plays, the quality, location and versatility of its equipment fleet, the expanded deep coil tubing rig and pumper fleets, and the ability to hire and retain qualified personnel.

The key factors that enabled Essential to generate record results during the quarter included:

- Expanded coil tubing rig and pumper fleets – Over the last twelve months, the Technicoil Acquisition combined with the Company's capital expenditure program, added 19 deep coil tubing rigs, 15 fluid pumpers and 2 nitrogen pumpers to Essential's fleet.
- Improved service rig utilization – Essential's service rig utilization increased from 64% in the first quarter of 2011 to 68% in the first quarter of 2012 as a result of the service rigs added through the Technicoil Acquisition and an increased concentration of rigs in northern Alberta. Essential's service rig fleet benefited from its proximity to high demand areas such as the Cardium and Slave Lake oil plays.

- Increased demand for downhole tools and rentals – Higher demand for stimulation and completion work on horizontal wells and increased demand for conventional tools on oil wells generated increased revenue for the Downhole Tools & Rentals segment during the first quarter.

SUMMARY OF QUARTERLY DATA

($Thousands, except per share amounts)	**Mar 31, 2012**	Dec 31, 2011	Sep 30, 2011	Jun 30, 2011	Mar 31, 2011	Dec 31, 2010	Sep 30, 2010	Jun 30, 2010
Well servicing revenue:								
Coil well service	**42,414**	43,945	36,349	9,871	14,131	11,373	8,859	4,939
Service rigs	**29,938**	25,060	20,969	9,606	23,873	17,747	12,796	8,394
Other	**10,579**	7,735	7,148	3,526	2,206	2,457	2,454	2,409
Total well servicing	**82,931**	76,740	64,466	23,003	40,210	31,577	24,109	15,742
Downhole tools & rentals								
Tryton MSFS	**15,701**	11,034	16,459	7,195	9,223	8,059	6,005	3,104
Conventional	**17,869**	16,430	13,778	8,839	12,822	10,485	8,537	5,037
Other	**1,681**	4,651	3,079	1,081	4,161	3,822	2,593	1,311
Downhole tools & rentals	**35,251**	32,115	33,316	17,115	26,206	22,366	17,135	9,452
Colombia	**1,398**	2,048	1,634	361	-	-	-	-
Total revenue	**119,580**	110,903	99,416	40,479	66,416	53,943	41,244	25,194
Gross margin[(1)]	**36,504**	35,758	31,100	3,077	16,652	14,636	10,186	3,150
Gross margin %[(1)]	**31%**	32%	31%	8%	25%	27%	25%	13%
EBITDA[(1)]	**32,352**	31,829	27,293	(137)	13,401	11,293	7,248	413
EBITDA %[(1)]	**27%**	29%	27%	0%	20%	21%	18%	2%
Net income (loss) attributable to shareholders of Essential	**18,893**	17,559	13,678	(6,364)	6,248	6,121	2,663	(2,466)
Per share – basic and diluted	**$0.15**	$0.14	$0.11	$(0.07)	$0.09	$0.09	$0.04	$(0.03)
Total assets	**430,674**	421,590	411,084	370,897	190,926	173,803	160,797	153,490
Total long-term debt	**57,238**	63,576	79,230	63,459	7,392	396	471	695
Equity attributable to shareholders of Essential	**306,372**	288,828	271,561	256,999	156,694	149,660	143,989	141,138
Utilization *								
Coil tubing rigs – deep	**102%**	111%	104%	37%	85%	81%	70%	33%
Coil tubing rigs – other	**25%**	30%	25%	18%	34%	35%	38%	29%
Service rigs	**68%**	59%	54%	27%	64%	51%	40%	26%
Hybrid drilling rigs	**60%**	47%	48%	47%	-	-	-	-
Operating Hours								
Coil tubing rigs – deep	**23,236**	23,524	21,938	3,638	4,575	3,740	2,305	1,181
Coil tubing rigs – other	**5,494**	6,778	5,813	3,805	7,033	8,704	8,647	6,530
Service rigs	**35,188**	31,005	28,201	13,229	28,710	24,072	18,752	12,257
Hybrid drilling rigs	**6,581**	5,192	5,337	1,696	-	-	-	-
Number of Tryton MSFS jobs	**86**	69	85	36	46	41	33	19
Equipment fleet **								
Canada								
Coil tubing rigs	**49**	49	48	48	32	32	32	32
Service rigs	**58**	57	57	58	52	51	51	51
Nitrogen pumpers	**10**	10	9	8	8	9	10	10
Fluid pumpers	**15**	15	12	6	-	-	-	-
Hybrid drilling rigs	**5**	5	5	5	-	-	-	-
Rod rigs	**14**	14	14	14	20	20	23	23
Colombia								
Coil tubing rigs	**2**	2	2	2	2	1	-	-
Service rigs	**2**	2	1	1	1	1	-	-
Nitrogen pumpers	**2**	2	2	2	2	1	-	-
Rod rigs	**3**	3	3	3	3	3	-	-

* Utilization is calculated using a 10 hour day for the entire fleet except for hybrid drilling rigs which is calculated using a 24 hour day.

** Fleet data represents the number of units at the end of the period.

Over the past two years, Essential has improved and expanded its fleet through the Technicoil Acquisition, the purchase of new equipment and ongoing maintenance and modifications to its existing fleet. Acquisitions and modifications have focused primarily on expanding the depth capacity and service capabilities of coil tubing rigs. Essential's equipment fleet is well suited to meet the changing needs of the WCSB market.

RESULTS OF OPERATIONS

	Three months ended March 31,	
(Thousands, except per share amounts)	**2012**	2011
Revenue	**$ 119,580**	$ 66,416
Operating expenses	**83,076**	49,764
Gross margin	**36,504**	16,652
Gross margin %[1]	**31%**	25%
General and administrative expenses	**4,152**	3,251
EBITDA[1]	**32,352**	13,401
EBITDA %[1]	**27%**	20%
Depreciation and amortization	**7,164**	3,508
Share-based compensation	**491**	305
Equity taxes	**-**	478
Other (income) expense	**(1,217)**	379
Operating income	**25,914**	8,731
Finance costs	**636**	120
Income before income tax	**25,278**	8,611
Current income tax expense	**3,716**	-
Deferred income tax expense	**2,832**	2,516
Total income tax expense	**6,548**	2,516
Net income	**$ 18,730**	$ 6,095
Net income (loss) attributable to:		
Shareholders of Essential	**$ 18,893**	$ 6,248
Non-controlling interest	**(163)**	(153)
	$ 18,730	$ 6,095
Net income per share		
Basic and diluted, attributable to shareholders of Essential	**$ 0.15**	$ 0.09

SEGMENT RESULTS - *WELL SERVICING - CANADA*

(Thousands)	Three months ended March 31, 2012	2011
Revenue		
Coil well service*	**$ 42,414**	$ 14,131
Service rigs	**29,938**	23,873
Other	**10,579**	2,206
Total revenue	**82,931**	40,210
Operating expenses	**56,437**	29,494
Gross margin	**$ 26,494**	$ 10,716
Gross margin %(1)	**32%**	27%
Utilization**		
Deep coil tubing rigs		
Utilization	**102%**	85%
Operating hours	**23,236**	4,575
Service rigs		
Utilization	**68%**	64%
Operating hours	**35,188**	28,710

* Includes revenue from coil tubing rigs, nitrogen and fluid pumpers and other ancillary equipment.
** Utilization is calculated on a 10 hour day.

Coil well service revenue increased significantly over the prior year. Essential increased the size and scope of its coil tubing fleet during the prior year through the Technicoil Acquisition and execution of its capital budget, both of which contributed to the significant increase in revenue. In addition, utilization of the coil tubing fleet improved in the first quarter of 2012 compared to the same period in 2011 due to the increase in the depth capacity of Essential's fleet and expanded service offerings provided after completion of the Technicoil Acquisition. Expansion of Essential's nitrogen and fluid pumper fleets enabled Essential to reduce its reliance on third party contractor equipment.

Service rig revenue increased from the prior year due to increased utilization across the fleet and the overall size of the fleet as a result of adding service rigs through the Technicoil Acquisition. The strength of oil prices, increased maintenance requirements for oil wells and an increase in the number of operating locations contributed to improved utilization and operating results for the service rig fleet. Service rig operations were particularly strong in the Cardium and Slave Lake oil plays where there was an increase in 24 hour operations and as a result of the initial expansion into work on steam-assisted gravity drainage ("SAGD") wells.

Other revenue, which includes hybrid drilling rigs and rod rigs, increased over the prior year as a result of the addition of hybrid drilling rigs through the Technicoil Acquisition. Utilization of these rigs remained strong during the quarter as the rigs were focused on heavy oil drilling, oilsands coring and shallow directional drilling.

Operations for the entire Well Servicing fleet in southern Alberta and Saskatchewan had a shorter operating season during the quarter due to an early spring break-up and road bans that limited access to well sites. The decline in utilization of the deep coil tubing rig fleet compared to the fourth quarter of 2011 was a direct result of these restrictions. Despite these conditions, Essential's Well Servicing fleet experienced improved utilization during the quarter compared to the same period in the prior year.

SEGMENT RESULTS - *DOWNHOLE TOOLS & RENTALS - CANADA*

(Thousands)	Three months ended March 31, 2012	2011
Revenue	**$ 35,251**	$ 26,206
Operating expenses	**23,738**	18,436
Gross margin	**$ 11,513**	$ 7,770
Gross margin %[1]	**33%**	30%
MSFS jobs	**86**	46

Revenue for the Downhole Tools & Rentals segment experienced strong growth during the quarter. This segment benefits from its focus on oil and liquids-rich natural gas plays by providing production and completion tools for both horizontal and vertical wells. Operations for this segment are also well placed geographically across many of the active oil plays in the WCSB. In the first quarter of 2012, the number of MSFS jobs almost doubled to 86 jobs from 46 jobs during the same period in the prior year, as the industry continued to utilize this completion technique on horizontal wells.

In February 2012, Essential disposed of its wireline business which historically generated lower gross margin as a percentage of revenue compared to the ongoing operations in this segment.

COLOMBIA

Essential services producing wells from its operating base in Barrancabermeja, Colombia. The Colombian operations have experienced fluctuations in activity levels as Essential establishes its customer base and negotiates contracts for future work. Management believes that there is significant demand for the services Essential provides and is continuing to develop these operations.

GENERAL AND ADMINISTRATIVE

(Thousands)	Three months ended March 31, 2012	2011
General and administrative expenses	**$ 4,152**	$ 3,251
As a % of revenue	**3%**	5%

General and administrative costs have declined as a percentage of revenue in 2012 compared to the same period in 2011 due to the increased size of the Company's operations after the Technicoil Acquisition and from realized corporate integration efficiencies. General and administrative expenses are comprised of wages, professional fees, office space and other administrative costs incurred at the corporate and operations level. General and administrative expenses increased in absolute dollars primarily due to additional administrative costs associated with Technicoil field operations.

SHARE-BASED COMPENSATION

(Thousands)	Three months ended March 31, 2012	2011
Share-based compensation expense	**$ 491**	$ 305

Share-based compensation increased over the same period in the prior year as a result of additional options issued in 2012.

DEPRECIATION AND AMORTIZATION

(Thousands)		Three months ended March 31, 2012		2011
Depreciation and amortization expense	**$**	**7,164**	$	3,508

Increased depreciation and amortization expense during 2012 was due to increased capital asset and intangible asset values as a result of the Technicoil Acquisition and Essential's 2011 capital program.

FINANCE COSTS

(Thousands)		Three months ended March 31, 2012		2011
Bank borrowings	**$**	**632**	$	113
Lease financing		**4**		7
	$	**636**	$	120

The increase in finance costs from 2011 is due to the increase in long-term debt from the Technicoil Acquisition and Essential's capital expenditure program. The Company had an average long-term debt balance outstanding during the three months ended March 31, 2012 of $56.2 million compared to $3.9 million for the same period in 2011.

INCOME TAXES

(Thousands)		Three months ended March 31, 2012		2011
Current income tax expense	**$**	**3,716**	$	-
Deferred income tax expense		**2,832**		2,516
Total income tax expense	**$**	**6,548**	$	2,516

For the three months ended March 31, 2012, income tax expense increased compared to 2011 due to higher comparable earnings.

FINANCIAL RESOURCES AND LIQUIDITY

FUNDS FLOW FROM OPERATIONS[1]

(Thousands)		Three months ended March 31, 2012		2011
Net cash flows from operating activities	**$**	**11,354**	$	(10)
Add:				
Changes in non-cash working capital		**17,277**		13,450
Funds flow from operations[1]	**$**	**28,631**	$	13,440
Per share – basic and diluted	**$**	**0.23**	$	0.18

WORKING CAPITAL

(Thousands)		**March 31, 2012**		March 31, 2011
Current assets	**$**	**117,685**	$	72,761
Current liabilities, excluding current portion of long-term debt		**(40,437)**		(26,634)
Working capital	**$**	**77,248**	$	46,127
Working capital ratio		**2.9:1**		2.7:1

The increase in working capital compared to the prior year is a result of the Technicoil Acquisition which significantly increased the size of operations. Working capital fluctuates during the course of the year due to the seasonality of operations and is generally highest in the first quarter.

CREDIT FACILITY

Essential's Credit Facility (the "Credit Facility") with its banking syndicate is comprised of a $20 million revolving operating loan and a $80 million revolving term loan facility with a $35 million accordion feature available on lender's consent. The $20 million revolving operating loan matures on May 31, 2012, is renewable annually at the lender's consent and is limited to 75% of Essential's accounts receivable less specific items. The $80 million revolving term loan facility matures on May 31, 2012, is renewable annually at the lender's consent and is limited to 60% of Essential's carrying value of property and equipment less certain indebtedness as defined in the Credit Facility agreement. To the extent the revolving term loan facility is not renewed, debt payments would be required over a two year period based on a three year amortization schedule. At March 31, 2012, the maximum of $100 million was available to Essential.

As at March 31, 2012, all financial debt covenants were satisfied and all banking requirements were up to date. Essential does not anticipate any financial resource or liquidity issues to restrict its future operating, investing or financing activities. On May 7, 2012, Essential had long-term debt outstanding of $49.8 million.

EQUIPMENT EXPENDITURES

	Three months ended March 31,			
(Thousands)		**2012**		2011
Well Servicing	**$**	**9,268**	$	6,257
Downhole Tools & Rentals		**815**		1,668
Corporate		**464**		77
Total equipment expenditures		**10,547**		8,002
Less proceeds on disposal of property and equipment		**(7,318)**		(947)
Net equipment expenditures[1]	**$**	**3,229**	$	7,055

Essential's capital expenditure program in 2012 continues to focus on increasing the depth capacity of the coil tubing fleet, expanding the pumping fleet to better service deeper horizontal well activity and enhancing the capabilities of the service rig fleet. Fabrication shop backlog for construction of new equipment has created some delivery delays, however, the new assets are mostly still expected to go into service in 2012 and early 2013 as originally planned. Capital spending during the first quarter primarily consisted of deposits and progress payments on the build programs for the masted coil tubing rigs, fluid pumpers and service rigs.

As of May 7, 2012, Essential added the following assets to its fleet:

- One custom built all-period double service rig for northern Alberta operations and one mobile double service rig for southern Alberta operations. Both service rigs are free-standing
- One 1,000HP quintiplex fluid pumper in the coil well service operations.

Essential classifies its equipment expenditures as growth capital[1], maintenance capital[1], and infrastructure capital[1]. The latter category includes information systems, operational facilities and leasehold improvements. Comparative equipment expenditures are as follows:

(Thousands)	Three months ended March 31, 2012	2011
Growth capital[1]	**$ 6,088**	$ 4,048
Maintenance capital[1]	**3,977**	3,624
Infrastructure capital[1]	**482**	330
Total equipment expenditures	**$ 10,547**	$ 8,002

SHARE CAPITAL

As at May 7, 2012, there were 123,787,568 shares and 7,741,753 share options outstanding. Of the 7,741,753 share options, 3,448,397 were exercisable of which 2,151,647 were "in-the-money".

DISCLOSURE CONTROLS AND PROCEDURES

Essential's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have designed, or caused to be designed under their supervision, disclosure controls and procedures to provide a reasonable assurance that: (i) material information relating to Essential is made known to Essential's CEO and CFO; and (ii) information required to be disclosed by Essential in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time period specified in securities legislation.

Essential reported on these as part of the 2011 reporting (please refer to the MD&A for the year ended December 31, 2011 available on SEDAR at www.sedar.com and on Essential's website at www.essentialenergy.ca). There have been no significant changes to disclosure controls in the current period.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

Internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of Essential's financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Essential's CEO and CFO are responsible for designing, or causing to be designed under their supervision, internal controls over financial reporting related to Essential, including its consolidated subsidiaries.

Essential reported on these as part of the 2011 reporting (please refer to the MD&A for the year ended December 31, 2011 available on SEDAR at www.sedar.com and on Essential's website at www.essentialenergy.ca).

OUTLOOK

Demand in the WCSB continues to be driven by oil prices and activity on horizontal wells which are more service intensive than vertical wells. In the first quarter of 2012, Essential experienced strong activity due to its focus on horizontal wells and oil and liquids-rich natural gas resource plays. Essential's strong performance is due to the quality, location and versatility of its equipment fleet, the ability to hire and retain qualified personnel and the expanded well servicing fleet.

Drier conditions compared to 2011 have created optimism about second quarter activity levels as these conditions may result in a less intense spring breakup. Management expects Essential's activity levels for the back half of 2012 to remain similar to 2011 as strong oil prices and activity on horizontal wells continue to create demand for Essential's services. Essential remains committed to its previously announced 2012 capital expenditure program of $60 million which further expands the breadth and depth of the current fleet and is expected to reinforce Essential's position as a leading well service provider in the WCSB.

Essential remains well-positioned with a strong balance sheet and high demand well services of coil tubing, service rigs and downhole tools to meet its customer's needs.

FORWARD-LOOKING STATEMENTS AND INFORMATION

This MD&A contains forward-looking statements and forward-looking information within the meaning of applicable securities laws. The use of any of the words "expect", "anticipate", "continue", "estimate", "objective", "ongoing", "may", "will", "project", "should", "believe", "plans", "intends" and similar expressions are intended to identify forward-looking information or statements. In particular, this MD&A contains forward-looking statements including expectations regarding capital spending, in-service dates of new equipment, expectations regarding the impact of recent equipment purchases, expectations of future cash flow and earnings, expectations with respect to the demand for and price of oil and liquids-rich natural gas, expectations regarding the level and type of drilling and production activity in the Western Canadian Sedimentary Basin, expectations regarding the demand for services, expectations regarding the business, operations and revenues of the Company in addition to general economic conditions, expectations regarding Essential's ability to meet the changing needs of the Western Canadian Sedimentary Basin market, expectations regarding demand for Essential's services in Colombia and expectations regarding the development of Essential's Colombian operations.

Although the Company believes that the expectations and assumptions on which such forward-looking statements and information are reasonable, undue reliance should not be placed on the forward-looking statements and information because the Company can give no assurance that such statements and information will prove to be correct. Since forward-looking statements and information address future events and conditions, by their very nature they involve inherent risks and uncertainties.

Actual results could differ materially from those currently anticipated due to a number of factors and risks. These include, but are not limited to: the risks associated with the oilfield services sector (e.g. demand, pricing and terms for oilfield services; current and expected oil and natural gas prices; exploration and development costs and delays; reserves discovery and decline rates; pipeline and transportation capacity; weather, health, safety and environmental risks); integration of acquisitions, competition, and uncertainties resulting from potential delays or changes in plans with respect to acquisitions, development projects or capital expenditures and changes in legislation, including but not limited to tax laws, royalties, incentive programs and environmental regulations; stock market volatility and the inability to access sufficient capital from external and internal sources; the ability of the Company's subsidiaries to enforce legal rights in foreign jurisdictions; general economic, market or business conditions; global economic events; changes to Essential's financial position and cash flow; the availability of qualified personnel, management or other key inputs; currency exchange fluctuations; changes in political and security stability; risks associated with government regulations and environmental health and safety matters and other unforeseen conditions which could impact the use of equipment and services supplied by Essential in Colombia; and other unforeseen conditions which could impact the use of services supplied by the Company. Accordingly, readers should not place undue reliance on the forward-looking statements. Readers are cautioned that the foregoing list of factors is not exhaustive.

Additional information on these and other factors that could affect the Company's financial results are included in reports on file with applicable securities regulatory authorities and may be accessed through the SEDAR website (www.sedar.com) for the Company. The forward-looking statements and information contained in this MD&A are made as of the date hereof and the Company undertakes no obligation to update publicly or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise, unless so required by applicable securities laws.

[1]Non-IFRS Measures

Throughout this MD&A, certain terms that are not specifically defined in IFRS are used to analyze Essential's operations. In addition to the primary measures of net earnings and net earnings per share in accordance with IFRS, Essential believes that certain measures not recognized under IFRS assist both Essential and the reader in assessing performance and understanding Essential's results. Each of these measures provides the reader with additional insight into Essential's ability to fund principal debt repayments and capital programs. As a result, the method of calculation may not be comparable with other companies. These measures should not be considered alternatives to net earnings and net earnings per share as calculated in accordance with IFRS.

Gross margin %[a] – This measure is considered a primary indicator of operating performance as calculated by gross margin divided by revenue.

EBITDA[b] (Earnings before finance costs, income taxes, equity taxes, depreciation, amortization, transaction costs, non-controlling interest earnings, losses or gains on disposal of equipment and share-based compensation) – This measure is considered an indicator of Essential's ability to generate funds flow in order to fund required working capital, service debt and fund capital programs.

EBITDA %[b] – This measure is considered an indicator of Essential's ability to generate funds flow as calculated by EBITDA[b] divided by revenue.

Funds flow or funds flow from operations[c] – This measure is an indicator of Essential's ability to generate funds flow[c] in order to fund working capital, principal debt repayments and capital programs. Funds flow or funds flow from operations is defined as cash flow from operations before changes in non-cash operating working capital. This measure is useful in assessing Essential's operational cash flow as it provides cash generated in the period excluding the timing of non-cash operating working capital. This reflects the ability of the operations of Essential to meet the above noted funding requirements.

Growth capital – Growth capital is capital spending which is intended to result in incremental increases in revenue. Growth capital is considered to be a key measure as it represents the total expenditures on equipment expected to add incremental revenues and funds flow to Essential.

Maintenance capital – Equipment additions that are incurred in order to refurbish or replace previously acquired equipment less proceeds on the disposal of retired equipment. Such additions do not provide incremental increases in revenue. Maintenance capital is a key component in understanding the sustainability of Essential's business as cash resources retained within Essential must be sufficient to meet maintenance capital needs to replenish the assets for future cash generation.

Infrastructure capital – Additions that are incurred in order to maintain the Company's business systems and operating facilities. Such additions do not provide incremental increases in revenue.

Net equipment expenditures[d] – This measure is equipment expenditures less proceeds on the disposal of equipment. Essential uses net equipment expenditures to assess net cash flows related to the financing of Essential's oilfield services equipment.

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[a] Gross margin % is reconciled to the IFRS measures, revenue and operating costs, in the table "Results of Operations".
[b] EBITDA and EBITDA % are reconciled to the IFRS measure, loss from continuing operations before income taxes, in the table "Results of Operations".
[c] Funds flow is reconciled to the IFRS measure, cash flow from operations, in the table "Funds Flow from Operations".
[d] Net equipment expenditures is calculated from the IFRS measures, equipment expenditures and proceeds on disposal of equipment, in the table "Equipment Expenditures".

Unaudited Condensed Interim Consolidated Financial Statements

Essential Energy Services Ltd.

March 31, 2012

ESSENTIAL ENERGY SERVICES LTD.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(unaudited)

(Thousands)	**As at March 31 2012**	As at December 31 2011
Assets		
Current		
Cash	**$ 1,760**	$ 164
Trade and other receivables *(note 5)*	**93,173**	85,013
Inventories *(note 6)*	**20,019**	17,819
Prepayments	**2,733**	3,019
	117,685	106,015
Non-current		
Property and equipment *(note 7)*	**212,833**	213,418
Intangible assets *(note 8)*	**41,671**	43,096
Goodwill	**57,425**	57,425
Deferred tax assets *(note 11)*	**1,060**	1,636
	312,989	315,575
Total assets	**$ 430,674**	$ 421,590
Liabilities		
Current		
Trade and other payables	**$ 33,719**	$ 39,913
Dividends payable *(note 9)*	**3,094**	-
Income taxes payable	**3,507**	5,234
Current portion of long-term debt *(note 10)*	**18,938**	14,603
Current portion of equity taxes	**117**	117
	59,375	59,867
Non-current		
Long-term debt *(note 10)*	**38,300**	48,973
Equity taxes	**242**	232
Deferred tax liabilities *(note 11)*	**26,272**	23,615
	64,814	72,820
Total liabilities	**124,189**	132,687
Commitments *(note 17)*		
Equity		
Share capital *(note 12)*	**258,401**	257,775
Retained earnings	**44,394**	28,651
Other reserves	**3,577**	2,402
Equity attributable to shareholders of Essential	**306,372**	288,828
Non-controlling interest *(note 13)*	**113**	75
Total equity	**306,485**	288,903
Total liabilities and equity	**$ 430,674**	$ 421,590

See accompanying notes to the unaudited condensed interim consolidated financial statements.

ESSENTIAL ENERGY SERVICES LTD.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(unaudited)

(Thousands, except per share amounts)	For the three months ended March 31 **2012**	2011
Revenue	**$ 119,580**	$ 66,416
Operating expenses	**83,076**	49,764
Gross margin	**36,504**	16,652
General and administrative expenses	**4,152**	3,251
	32,352	13,401
Depreciation and amortization *(notes 7 & 8)*	**7,164**	3,508
Share-based compensation *(note 15)*	**491**	305
Equity taxes	**-**	478
Other (income) expense	**(1,217)**	379
Operating profit	**25,914**	8,731
Finance costs *(note 14)*	**636**	120
Earnings before income taxes	**25,278**	8,611
Income taxes		
Current expense	**3,716**	-
Deferred expense	**2,832**	2,516
Total income tax expense *(note 11)*	**6,548**	2,516
Net income	**18,730**	6,095
Other comprehensive income (loss):		
Unrealized foreign exchange gain on foreign operations	**1,009**	175
Comprehensive income	**$ 19,739**	$ 6,270
Net income (loss) attributable to:		
Shareholders of Essential	**$ 18,893**	$ 6,248
Non-controlling interest	**(163)**	(153)
	$ 18,730	$ 6,095
Comprehensive income (loss) attributable to:		
Shareholders of Essential	**$ 19,758**	$ 6,409
Non-controlling interest	**(19)**	(139)
	$ 19,739	$ 6,270
Earnings per share *(note 16)*		
Basic and diluted, attributable to shareholders of Essential	**$ 0.15**	$ 0.09

See accompanying notes to the unaudited condensed interim consolidated financial statements.

ESSENTIAL ENERGY SERVICES LTD.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(unaudited)

(Thousands)	For the three months ended March 31 **2012**	2011
Equity attributable to shareholders of Essential:		
Share capital		
Opening balance	**$ 257,775**	$ 150,798
Exercise of options	**626**	5
Closing balance	**$ 258,401**	$ 150,803
Retained earnings (accumulated deficit)		
Opening balance	**$ 28,651**	$ (2,223)
Net income	**18,893**	6,248
Dividends	**(3,094)**	-
Equity transferred *(note 13)*	**(56)**	(89)
Closing balance	**$ 44,394**	$ 3,936
Other Reserves		
Opening balance	**$ 2,402**	$ 1,205
Other comprehensive income	**865**	161
Share based compensation	**491**	305
Exercise of options	**(181)**	(2)
Closing balance	**$ 3,577**	$ 1,669
Total equity attributable to shareholders of Essential	**$ 306,372**	$ 156,408
Equity attributable to non-controlling interest:		
Opening balance	**$ 75**	$ 303
Net loss	**(163)**	(153)
Other comprehensive income	**145**	14
Equity transferred *(note 13)*	**56**	89
Closing balance	**$ 113**	$ 253
Total equity	**$ 306,485**	$ 156,661

See accompanying notes to the unaudited condensed interim consolidated financial statements.

ESSENTIAL ENERGY SERVICES LTD.
CONSOLIDATED STATEMENT OF CASH FLOWS
(unaudited)

(Thousands)	For the three months ended March 31 **2012**	2011
Operating activities:		
Net income	**$ 18,730**	$ 6,095
Non-cash adjustments to reconcile net income to net cash flow:		
Depreciation and amortization *(notes 7 & 8)*	**7,164**	3,508
Deferred income tax expense *(note 11)*	**2,832**	2,516
Share-based compensation *(note 15)*	**491**	305
Provision for (recovery of) impairment of trade receivables *(note 5)*	**(342)**	153
Finance costs *(note 14)*	**636**	120
(Gain) loss on disposal of assets *(note 7)*	**(880)**	743
Operating cash flow before changes in working capital	**28,631**	13,440
Working capital adjustments:		
Increase in trade and other receivables before provision	**(7,452)**	(15,876)
Increase in inventories	**(2,200)**	(1,070)
(Increase) decrease in prepayments	**286**	(55)
Decrease in income taxes payable	**(1,727)**	-
Increase (decrease) in trade and other accounts payables	**(6,194)**	3,073
Increase in equity taxes	**10**	478
Net cash flows from (used in) operating activities	**11,354**	(10)
Investing activities:		
Purchase of property and equipment *(note 7)*	**(10,547)**	(8,002)
Proceeds on disposal of equipment *(note 7)*	**7,318**	947
Change in non-cash working capital	-	(800)
Net cash flows used in investing activities	**(3,229)**	(7,855)
Financing activities:		
Increase (decrease) in long-term debt	**(6,338)**	6,996
Issuance of share capital, net of costs	**445**	3
Finance costs *(note 14)*	**(636)**	(120)
Net cash flows from (used in) financing activities	**(6,529)**	6,879
Foreign exchange gain on cash held in a foreign currency	**-**	(3)
Change in cash	**1,596**	(989)
Cash, beginning of period	**164**	2,392
Cash, end of period	**$ 1,760**	$ 1,403

See accompanying notes to the unaudited condensed interim consolidated financial statements.

ESSENTIAL ENERGY SERVICES LTD.
NOTES TO UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
As at and for the periods ended March 31, 2012 and 2011
(All tabular amounts in thousands unless otherwise stated, except for per share amounts)

1. AUTHORIZATION OF FINANCIAL STATEMENTS & STATEMENT OF COMPLIANCE WITH IFRS

The unaudited condensed interim consolidated financial statements ("Interim Financial Statements") of Essential Energy Services Ltd. and its subsidiaries ("Essential" or the "Company") for the three month periods ended March 31, 2012 and 2011 were authorized by the Board of Directors on May 7, 2012. Essential is a publicly traded oilfield services company governed by the laws of the province of Alberta. Essential is listed on the Toronto Stock Exchange and trades under the symbol "ESN".

Based in Calgary, Essential provides oilfield services to oil and gas producers in western Canada for servicing producing wells and new drilling activity. Essential provides integrated services related to well servicing of producing wells and new drilling activity in Colombia.

The Interim Financial Statements of Essential have been prepared in accordance with IAS 34 *Interim Financial Reporting* as issued by the International Accounting Standards Board (IASB).

The Interim Financial Statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Company's annual consolidated financial statements as at December 31, 2011.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Interim Financial Statements for the three month periods ended March 31, 2012 and 2011 were prepared in accordance with IAS 34, *Interim Financial Reporting*. The same accounting policies and methods of computation were followed in the preparation of these Interim Financial Statements as were followed in the preparation of the annual financial statements for the year ended December 31, 2011. Accordingly, these Interim Financial Statements for the three month periods ended March 31, 2012 and 2011 should be read together with the annual consolidated financial statements for the year ended December 31, 2011.

3. FUTURE ACCOUNTING POLICIES

As of January 1, 2013, Essential will be required to adopt certain standards and amendments issued by the IASB as described below, for which the Company is currently assessing the impact on its consolidated financial statements.

IFRS 11, "Joint Arrangements" is the result of the IASB's project to replace IAS 31, "Interest in Joint Ventures". The new standard redefines "joint operations" and "joint ventures" and requires joint operations to be proportionately consolidated and joint ventures to be equity accounted. Under IAS 31, joint ventures could be proportionately accounted.

IFRS 13, "Fair Value Measurement" provides a common definition of fair value, establishes a framework for measuring fair value under IFRS and enhances the disclosures required for fair value measurements. The standard applies where fair value measurements are required and does not require new fair value measurements.

IFRS 9, "Financial Instruments" is the result of the first phase of the IASB's project to replace IAS 39, "Financial Instruments: Recognition and Measurement". The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value.

IFRS 10, "Consolidated Financial Statements" is the result of the IASB's project to replace Standing Interpretations Committee 12, "Consolidation – Special Purpose Entities" and the consolidation requirements of IAS 27, "Consolidated and Separate Financial Statements". The new standard eliminates the current risk and rewards approach and establishes control as the single basis for determining the consolidation of an entity.

IFRS 12, "Disclosure of Interests in Other Entities" outlines the required disclosures for interests in subsidiaries and joint arrangements. The new standard requires disclosure of information that will assist financial statement users to evaluate the nature, risks and financial effects associated with an entity's interests in subsidiaries and joint arrangements.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The determination of the value of many assets and liabilities is dependent upon future events and the preparation of financial statements necessarily involves the use of estimates and approximations based on information available as of the date of the Interim Financial Statements that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and revenues and expenses for the periods reported. The most significant of these are the estimates used for the fair valuation of acquired assets and liabilities pursuant to business combinations, provisions for impairment of trade receivables, net realizable value of used inventory, depreciation and amortization, intangible assets, share-based compensation, impairment of non-financial assets and deferred income tax assets and liabilities. The effect on the Interim Financial Statements of changes in such estimates in future years could be material.

5. TRADE AND OTHER RECEIVABLES

	As at March 31 2012	As at December 31 2011
Trade receivables, net of provision	**$ 93,118**	$ 83,065
Other receivables	**55**	1,948
	$ 93,173	$ 85,013

Trade receivables are non-interest bearing, generally due on 30-90 day terms and are shown net of a provision for impairment of $1.0 million (2011 - $1.6 million). Other receivables are non-interest bearing and do not contain impaired assets.

The carrying amounts of Essential's trade receivables are denominated in the following currencies:

	As at March 31 2012	As at December 31 2011
Canadian Dollar	**$ 91,618**	$ 81,982
United States Dollar	**1,500**	1,083
	$ 93,118	$ 83,065

The aging analysis of trade receivables is as follows:

	As at March 31 2012	As at December 31 2011
< 31 days	**$ 39,781**	$ 38,414
31-60 days	**31,772**	28,551
61-90 days	**12,268**	10,759
>90 days	**9,297**	5,341
	$ 93,118	$ 83,065

Trade receivables that are less than three months past due are generally not considered impaired. The provision for impairment of receivables of $1.0 million is included in the amounts over 90 days old. The movements in the provision during the period were as follows:

	For the three months ended March 31 2012	2011
Balance, beginning of the period	**$ 1,642**	$ 423
Provision for receivables impairment	**-**	153
Receivables written off during the period as uncollectible	**(342)**	(3)
Unused amount reversed	**(342)**	-
Balance, end of the period	**$ 958**	$ 573

The creation and release of the provision for impairment of receivables has been included in operating expenses in the consolidated statement of comprehensive income. Amounts included in the provision are generally written off when there is no expectation of recovering additional cash.

6. INVENTORIES

	As at March 31 2012	As at December 31 2011
Downhole tools	**$ 13,989**	$ 13,493
Coil tubing products	**6,030**	4,326
	$ 20,019	$ 17,819

Inventory charged through operating expenses in the consolidated statement of comprehensive income for the three months ended March 31, 2012 was $14.3 million (2011 - $9.1 million).

7. PROPERTY AND EQUIPMENT

As at March 31, 2012	**Cost**	**Accumulated Depreciation**	**Net Book Value**
Service rigs and equipment	**$ 119,524**	**$ 21,731**	**$ 97,793**
Coil tubing rigs and equipment	**77,953**	**9,936**	**68,017**
Oilfield equipment	**37,183**	**11,510**	**25,673**
Vehicles	**20,057**	**4,816**	**15,241**
Office and computer equipment	**6,505**	**3,015**	**3,490**
Land	**482**	**-**	**482**
Other	**3,633**	**1,496**	**2,137**
	$ 265,337	**$ 52,504**	**$ 212,833**

As at December 31, 2011	Cost	Accumulated Depreciation	Net Book Value
Service rigs and equipment	$ 115,581	$ 19,835	$ 95,746
Coil tubing rigs and equipment	75,138	8,504	66,634
Oilfield equipment	40,723	11,335	29,388
Vehicles	18,885	4,560	14,325
Office and computer equipment	6,218	2,736	3,482
Land	482	-	482
Other	4,892	1,531	3,361
	$ 261,919	$ 48,501	$ 213,418

Included in service rigs and equipment, coil tubing rigs and equipment and oilfield equipment is $20.6 million (December 31, 2011 - $17.0 million) of assets under construction which will not be depreciated until put into use.

	For the three months ended March 31 2012	2011
Net book value, beginning of the period	**$ 213,418**	$ 109,830
Acquisitions	**10,547**	8,002
Disposals	**(6,438)**	(1,690)
Depreciation	**(5,872)**	(3,306)
Currency translation adjustment	**1,178**	48
Net book value, end of the period	**$ 212,833**	$ 112,884

8. INTANGIBLE ASSETS

As at March 31, 2012	**Cost**	**Accumulated Amortization**	**Net Book Value**
Customer relationships	**$ 45,715**	**$ 6,425**	**$ 39,290**
Trade names	**3,559**	**1,225**	**2,334**
Favourable leases	**500**	**453**	**47**
	$ 49,774	**$ 8,103**	**$ 41,671**

As at December 31, 2011	Cost	Accumulated Amortization	Net Book Value
Customer relationships	$ 45,917	$ 5,379	$ 40,538
Trade names	3,599	1,125	2,474
Favourable leases	561	477	84
	$ 50,077	$ 6,981	$ 43,096

	For the three months ended March 31 2012	2011
Net book value, beginning of the period	**$ 43,096**	$ 3,122
Loss on disposal of assets	**(133)**	-
Amortization	**(1,292)**	(202)
Net book value, end of the period	**$ 41,671**	$ 2,920

9. DIVIDENDS PAYABLE

During the period, Essential declared dividends to the shareholders in accordance with the following schedule:

2012 Dividends	**Record date**	**Dividend date**	**Amount per share**
First quarter	March 30	April 13	$ 0.025

10. LONG-TERM DEBT

	As at March 31 2012	As at December 31 2011
Term loan	**$ 57,200**	$ 63,293
Finance leases	**38**	283
	57,238	63,576
Less: current portion of long-term debt	**(18,938)**	(14,603)
	$ 38,300	$ 48,973

Essential's Credit Facility (the "Credit Facility") with its banking syndicate is comprised of a $20 million revolving operating loan and a $80 million revolving term loan facility with a $35 million accordion feature available on lender's consent. The $20 million revolving operating loan matures on May 31, 2012, is renewable annually at the lender's consent and is limited to 75% of Essential's accounts receivable less specific items. The $80 million revolving term loan facility matures on May 31, 2012, is renewable annually at the lender's consent and is limited to 60% of Essential's carrying value of property and equipment less certain indebtedness as defined in the Credit Facility agreement. To the extent the revolving term loan facility is not renewed, debt payments would be required over a two year period based on a three year amortization schedule.

As at March 31, 2012, all financial debt covenants were satisfied and all banking requirements were up to date. The maximum of $100 million was available to the Company as at March 31, 2012.

The fair value of the term loan approximates the carrying amount. The following table outlines the term loan repayments, excluding interest, in the event that the Credit Facility is not renewed.

	As at March 31 2012	As at December 31 2011
Repayments are required as follows:		
Within one year	**$ 18,922**	$ 14,345
Between one and two years	**17,667**	20,254
Between two and three years	**20,611**	28,694
	$ 57,200	$ 63,293

Assets under finance leases consist of automotive and office assets. The obligations under finance leases are secured by the lessors' title to the leased assets. The following table outlines the future minimum finance lease payments.

	As at March 31 2012	As at December 31 2011
Amounts payable under finance leases		
Within one year	**$ 16**	$ 258
Between one and two years	**22**	25
	$ 38	$ 283

11. INCOME TAXES

Components of Income Tax Expense

	For the three months ended March 31 **2012**	2011
Current income tax expense	**$ 3,716**	$ -
Deferred income tax expense related to the origination and reversal of temporary differences	**2,832**	2,516
Income tax expense	**$ 6,548**	$ 2,516

Income tax expense differs from the amount computed by applying the Canadian statutory rates on income before income taxes as follows:

	For the three months ended March 31 2012		March 31 2011
Earnings before income taxes	**$ 25,278**	$	8,611
Statutory tax rate	**25.0%**		26.5%
Expected income tax expense	**$ 6,320**	$	2,282
Increase (decrease) resulting from:			
Equity tax	-		127
Share based compensation	**123**		81
Items not deductible for tax	**57**		166
Impact of foreign tax rates	**38**		(19)
Effective tax law changes and future tax rate deductions	**-**		(121)
Other	**10**		-
Income tax expense	**$ 6,548**	$	2,516

The deferred income tax assets and liabilities consist of temporary differences between the carrying values for accounting versus tax as follows:

	As at March 31 2012		As at December 31 2011
Deferred tax assets			
Foreign operating loss	**$ 1,232**	$	1,383
Foreign incentive	**309**		253
Accelerated depreciation of property and equipment	**(481)**		-
	$ 1,060	$	1,636
Deferred tax liabilities			
Accelerated depreciation of property and equipment	**$ (17,605)**	$	(16,989)
Book values of intangible assets in excess of tax	**(7,164)**		(7,457)
Losses available for offset against future taxable income	**1,820**		4,157
Deferred partnership income	**(2,964)**		(3,118)
Equity issuance costs	**552**		617
Other	**(911)**		(825)
	$ (26,272)	$	(23,615)
Net deferred tax assets (liabilities)	**$ (25,212)**	$	(21,979)

12. SHARE CAPITAL

Authorized

Authorized share capital consists of an unlimited number of common and preferred shares. Common shares are without par value and are entitled to any dividend declared on this class of share. Preferred shares may be issued in one or more series, and the rights, privileges, restrictions and conditions of each series will be determined prior to issuance.

Issued

	Number of Common Shares		Amount
As at January 1, 2011	71,443	$	150,798
Shares issued on acquisition of Technicoil	51,736		106,536
Shares issued on exercise of options	260		441
As at December 31, 2011	123,439	$	257,775
Shares issued on exercise of options	331		626
As at March 31, 2012	**123,770**	**$**	**258,401**

13. NON-CONTROLLING INTEREST

		As at March 31 2012		As at December 31 2011
Balance, beginning of the period	**$**	**75**	$	303
Contribution		**56**		128
Loss attributed to non-controlling interest		**(163)**		(347)
Other comprehensive income (loss)		**145**		(9)
Balance, end of the period	**$**	**113**	$	75

Essential established a subsidiary pursuant to the terms of an agreement with a private Colombian group (the "Partner") under the name of Essential Energy Services S.A. ("Essential Colombia"). Under the terms of the agreement, Essential owns 85% and the Partner owns 15% of Essential Colombia and earnings are allocated accordingly.

The Partner was granted a 5% interest in Essential Colombia upon signing the agreement. Therefore, 5% of the fair value of Essential's contributed equipment has been treated as a transfer of equity to the non-controlling interest. The remaining 10% of the Partner's contribution will be recorded as an increase to non-controlling interest when received.

14. FINANCE COSTS

	For the three months ended March 31			
		2012		2011
Bank borrowings	**$**	**632**	$	113
Lease financing		**4**		7
	$	**636**	$	120

15. SHARE-BASED COMPENSATION

Under the Company's Share Option Plan certain key personnel of the Company are eligible to receive options to acquire Essential shares, with terms not to exceed five years from the date of the grant. The exercise price is the weighted-average price of the shares for the five trading days immediately prior to the grant date. Under the Share Option Plan, vesting periods are determined by the Board of Directors of the Company at the time of the grant. The options currently granted vest over three years with one-third of the options exercisable on each anniversary date from the date of the original grant.

The maximum number of share options issuable under the Share Option Plan may not exceed 10% of the sum of the Company's outstanding shares, which at March 31, 2012 totaled 12,376,957 (2011 – 7,144,663) share options.

	For the three months ended March 31, 2012			For the three months ended March 31, 2011		
	Number of Options		**Weighted Average Exercise Price**	Number of Options		Weighted Average Exercise Price
Outstanding, beginning of period	**6,271**	**$**	**2.04**	5,034	$	2.61
Issued	**2,155**		**2.07**	1,530		2.16
Exercised	**(331)**		**1.36**	(3)		1.00
Expired	**(93)**		**5.87**	(1)		18.74
Forfeited	**(73)**		**1.88**	(44)		3.45
Outstanding, end of period	**7,929**	**$**	**2.03**	6,516	$	2.50
Exercisable, end of period	**3,501**	**$**	**2.14**	2,793	$	3.51

The fair value of share options issued during the period was estimated using the Black-Scholes option pricing model using the following underlying assumptions:

	2012	2011
Fair value per option issued	**$0.85 – 1.10**	$0.94 – 1.18
Assumptions used:		
Risk-free interest rate	**1.0 – 1.1%**	1.7 – 2.3%
Expected volatility	**62.5 – 72.2%**	70.0 – 77.4%
Expected term	**2.9 – 3.8 years**	2.2 – 4.2 years
Expected forfeiture rate	**8.0 – 18.9%**	16.0%
Dividend yield	**nil**	nil

The expected term of the grant is determined based on the historical average life of grants issued. The risk-free interest rate is determined using the Canadian bond yield based on the expected term of the grant. The expected volatility is determined based on the change in the share price over the term of the grant. The expected forfeiture rate is calculated based on historical forfeitures of grants issued.

16. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net income attributable to equity shareholders by the weighted average number of shares issued.

In calculating diluted earnings per share, share options outstanding and other potential common shares have been taken into account where the impact of these is dilutive.

	For the three months ended March 31	
	2012	2011
Basic	**123,573**	71,447
Dilutive common shares from share options	**1,765**	1,549
Total diluted	**125,338**	72,996
Net income attributable to Essential	**$ 18,893**	$ 6,248
Basic and diluted earnings per share	**$ 0.15**	$ 0.09

17. COMMITMENTS

In addition to the required payments on long-term debt (note 10), Essential has entered into operating leases for office and shop premises and equipment that provide for minimum annual lease payments as follows:

	Amount
Within one year	$ 3,757
In the second year to fifth years inclusive	10,151
After five years	1,715
	$ 15,623

In addition to the above, Essential entered into agreements to build certain assets for $35.5 million of which $3.3 million was paid during the three months ended March 31, 2012. During the remainder of 2012, $29.7 million of the amounts committed to these expenditures are expected to be paid with the balance of $2.5 million expected to be paid during 2013.

18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair values

The carrying values of cash, trade and other receivables, dividends payable and trade and other payables approximate their estimated fair values due to their short terms to maturity.

The fair value of a financial instrument is the amount that would be agreed to in an arm's length transaction between knowledgeable, willing parties who are under no obligation to act. Fair value can be determined by reference to prices in active markets to which the Company has access. In the absence of active markets, the Company determines fair value based on market or by reference to other similar products.

The fair value of long-term debt is estimated to equal the carrying value, as the interest rate attached to the debt is a floating rate which fluctuates with market interest rates.

Credit risk

The Company's trade accounts receivable balances are with customers in the oil and gas industry and are subject to normal industry credit risks. These balances represent the Company's total credit exposure. During the three months ended March 31, 2012, the Company earned revenues from approximately 400 customers (2011 – 400 customers) with five of these customers representing 22% of revenue (2011 – 29%). As at March 31, 2012, approximately 21% of the total accounts receivable balance was due from five companies (2011 – 27%).

Market risk

Market risk is the risk that changes in market prices, such as interest rates or foreign exchange rates will affect the Company's income or the value of its financial instruments. Assuming all other variables remain the same, it is estimated that a 1% change to interest rates on the long-term debt would result in a $0.5 million change to net income on an annualized basis.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. Essential manages liquidity risk by forecasting cash flows to identify financing requirements, by maintaining committed credit facilities, and by maintaining access to additional financing at competitive rates through capital markets and highly rated financial institutions. The Company believes that it has access to sufficient capital through internally generated cash flows and from undrawn committed credit facilities to meet current spending forecasts.

19. SEASONALITY OF OPERATIONS

The Company's operations are carried out primarily in western Canada. The oilfield service industry's ability to move heavy equipment in exploration and production areas is dependent on weather conditions. With the onset of spring, melting snow together with frost coming out of the ground renders many roadways incapable of supporting heavy equipment until sufficient time has passed for them to dry out. In addition, certain areas in Canada are typically only accessible during winter months, when the surface is frozen enough to support the heavy equipment. As a result, the activity levels of the Company are directly impacted by this seasonality, whereby activity is traditionally higher in the first and fourth quarters of the year and lower in the second and third quarters.

20. SEGMENTED INFORMATION

Essential has two operating segments, Well Servicing and Downhole Tools & Rentals, and a non-operating segment, Corporate.

a) Well Servicing

The Well Servicing segment provides well completion and production/workover services throughout the Western Canadian Sedimentary Basin. Certain Well Servicing equipment was relocated to Colombia at the end of 2010 and provides services in Colombia. The Well Servicing segment is comprised of a fleet of coil tubing rigs, service rigs and ancillary equipment.

b) Downhole Tools & Rentals

The Downhole Tools & Rentals segment provides a variety of products and services including downhole tools and rental equipment throughout the Western Canadian Sedimentary Basin.

Selected financial information by operating segment and Corporate is as follows:

As at and for the three months ended March 31, 2012

	Well Servicing	Downhole Tools & Rentals	Corporate	Consolidated
Revenue	**$ 84,329**	**$ 35,251**	**$ -**	**$ 119,580**
Net income (loss) before income taxes	**$ 19,342**	**$ 10,900**	**$ (4,964)**	**$ 25,278**
Depreciation and amortization	**$ 5,874**	**$ 973**	**$ 317**	**$ 7,164**
Total assets	**$ 362,920**	**$ 61,483**	**$ 6,271**	**$ 430,674**
Total liabilities	**$ 40,343**	**$ 8,654**	**$ 75,192**	**$ 124,189**
Equipment expenditures	**$ 9,268**	**$ 815**	**$ 464**	**$ 10,547**

As at and for the three months ended March 31, 2011

	Well Servicing	Downhole Tools & Rentals	Corporate	Consolidated
Revenue	$ 40,210	$ 26,206	$ -	$ 66,416
Net income (loss) before income taxes	$ 6,744	$ 5,660	$ (3,793)	$ 8,611
Depreciation and amortization	$ 2,202	$ 1,038	$ 268	$ 3,508
Total assets	$ 127,304	$ 57,025	$ 6,717	$ 191,046
Total liabilities	$ 11,417	$ 9,834	$ 13,134	$ 34,385
Equipment expenditures	$ 6,257	$ 1,668	$ 77	$ 8,002

The Company's operations are carried out in two geographic locations:

As at and for the three months ended March 31, 2012

	Canada	Colombia	Consolidated
Revenue	**$ 118,182**	**$ 1,398**	**$ 119,580**
Total assets	**$ 417,857**	**$ 12,817**	**$ 430,674**

As at and for the three months ended March 31, 2011

	Canada	Colombia	Consolidated
Revenue	$ 66,416	$ -	$ 66,416
Total assets	$ 181,492	$ 9,554	$ 191,046

CORPORATE INFORMATION

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3. Health, Safety & Environment Committee

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